



## **General Fund of the Government of Guam FY 2010 Financial Highlights**

July 1, 2011

The Government of Guam (GovGuam) General Fund ended Fiscal Year (FY) 2010 with a deficit of \$71.1 million (M), bringing the cumulative deficit to \$336.4M. The increase was due to an overestimation of budget to actual revenues of \$34.5M<sup>1</sup>, expenditures over revenues of \$71.1M, \$13M in prior year expenditures and \$18M in recurring unbudgeted expenditures. The over-expenditures were funded by delaying refund payments to taxpayers.

For the fourth consecutive year, independent auditor Deloitte & Touche, LLP issued an unqualified or “clean” opinion on GovGuam’s FY 2010 financial statements. Twenty three audit adjustments were made for the Government Wide financial statements, accounting for almost 100 funds. These adjustments increased Net Assets by \$47.5M primarily due to capitalizing construction in progress costs of the Layon Landfill, Southern Regional Health Center and Federal Highway Administration roads.

### **Low Revenue Collections in Three Years**

Guam has experienced a downward economy for the past three years, from revenues of \$514.8M in FY 2007 to \$491M in FY 2010. Although revenues increased slightly from FY 2009 to FY 2010 (from \$483.2M to \$491M), actual collections were \$34.5M less than budgeted revenues of \$525.5M.

Section 30 revenues increased by \$302,000, from \$40.5M the prior year to \$40.8M, but even with the increase, FY 2010’s total pales compared to FY 2007’s \$74.7M.

Construction projects, in the Draft Environmental Impact Statement, to relocate the U.S. Marines and ancillary services from Japan to Guam have not yet materialized. However, economic growth expected in the latter part of FY 2011 and FY 2012 is dependent on the timeline adjustments agreed to by the U.S. and Japan to finance the infrastructure requirements of the buildup through 2014. In addition, Guam is not immune to volatile crude oil prices or from sequential local and national debt challenges.

### *Increased Tax Collections*

Taxes increased by \$3.5M, from \$427.9M in FY 2009 to \$431.4M in FY 2010. According to the Department of Revenue and Taxation (DRT), taxes increased due to increased collection efforts. Although income taxes decreased by \$2.6M to \$239.3M, gross receipts taxes increased by \$6M to \$188.6M.

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<sup>1</sup> While several revenue sources were overestimated, such as income taxes (by \$20.9M) and gross receipts taxes (by \$19.9M), other revenue sources were underestimated by \$8.4M. Collectively, revenues were overestimated by \$34.5M.

### **Over-Expenditures of \$71.1M**

GovGuam continues to spend more than it takes in. Expenditures for line agencies, the Legislature, and the Judiciary, and subsidies to autonomous entities, such as the University of Guam and Guam Community College, totaled \$562M, exceeding actual revenues of \$491M by \$71.1M and increasing the cumulative General Fund deficit, as of September 30, 2010, to \$336.4M.

#### *Unbudgeted Interest and Other Charges*

Recurring expenditures of \$18M not covered by appropriations consist of: (1) \$3M in interest on tax refunds, (2) \$4.6M in interest-only payments to the Retirement Fund, (3) \$4.1M in credit card charges and other bank fees, (4) \$1.3M in interest on Cost of Living Adjustment payments, and (5) \$5M in other charges. Of these, the interest on tax refunds, interest-only payments to the Retirement Fund and credit card charges have been accruing monthly for the past six fiscal years.

#### *Increased Operating Costs*

The Department of Administration's (DOA) expenses increased this year due to increases in health and life insurance benefits and utilities. In addition, operating expenditures increased for the departments of Mental Health and Substance Abuse (DMHSA) and Public Health and Social Services (DPHSS).

Previously, the cost for employee health and life insurance benefits and line agency utility payments was subtracted from agency appropriations, and the Department of Public Works bore the cost for public streetlights. Public Law 30-55 transferred the responsibility to DOA and established two central cost accounts: (1) the Utility Cost Account, for utility payments, and (2) the Health Benefit Cost Account, for payment of health, life and dental premiums. Thus, DOA's expenses increased by \$11.7M to \$28.2M due to the additional expenses for streetlights (\$1.2M), power and water (\$7M) and employee insurance benefits (\$3.9M). Retiree insurance benefits amounted to \$19.1M, bringing the total insurance cost to \$23M in FY 2010.

As a result of the permanent injunction against DMHSA and the appointment of a Federal Management Team to force compliance, the agency's expenses increased by \$1.4M to \$11.8M. In November 2010, the Court approved the Federal Management Team's plan to bring DMHSA into compliance at a cost of \$16M. Of this amount, only \$1.5M of the \$16M was recorded in FY 2010; the remaining \$14.5M will be recorded in FY 2011.

DPHSS's expenses increased by \$1.7M to \$5.3M due to carry-over of lapses from the prior year.

### **Make Work Pay Tax Credit (MWPC)**

The MWPC, a provision of the American Recovery and Reinvestment Act, provided tax relief up to \$400 for eligible working individuals and up to \$800 for married taxpayers filing jointly in tax years 2009 and 2010. The U.S. Treasury advanced the cost to local governments and expects unused funds to be returned by January 30, 2013 or to be offset against future payments. As of March 2011, GovGuam received \$67.5M (\$36.3M for 2009 and \$31.2M for 2010). However, GovGuam spent \$62M of the credit advance to fund General Fund daily operations and pay some tax refunds.

DRT completed processing the 2009 income tax returns in June 2011, 14 months after the April 15, 2010 deadline. Of the \$36.3M credit advance for 2009, DRT tallied \$19.7M due for tax refunds and \$4.9M was reclassified as revenues in FY 2010. The remaining \$11.7M must be returned to the Treasury by January 2013 or be offset.

### **Prior Year Obligations**

In January 2011, the incoming Calvo Administration instructed line agencies to provide DOA with outstanding invoices for (1) goods and services received in FY 2009 and prior, and (2) employee back pay due. Upon validation that such invoices were due and payable, \$13M in unrecorded prior year obligations were recognized as liabilities contributing to the increase of the FY 2010 deficit.

### **Permanent Transfers**

In accordance with P.L. 30-55, Chapter XIII, Section 8, DOA transferred \$50.4M from other funds to the General Fund to fund daily operations in FY 2010. The largest transfers came from the Recycling Revolving Fund (\$5M), the Tourist Attraction Fund (\$4.4M), the Land Survey Revolving Fund (\$4.2M) and the Enhanced 911 Emergency Reporting System Fund (\$2.2M). Based on Government Accounting Standards Board (GASB) Statement No. 34, DOA has determined that the General Fund does not have the ability to pay back \$24.8M. Transfers that will not be repaid are called, “permanent transfers” and have a positive effect of reducing the deficit.

### **GovGuam Obligations and Certificates of Participation**

As of September 2010, GovGuam had \$723.1M in long-term liabilities comprised of general obligation bonds (\$443M), limited obligation bonds (\$258.8M), and short-term loans (\$21.3M). GovGuam paid \$74.5M in annual debt service for these obligations during the year. In addition, GovGuam has other long-term obligations in the form of Certificates of Participation (COPs).<sup>2</sup>

Since issuing COPs in October 2006 for the construction of Liguán Elementary, Adacao Elementary, Astumbo Middle, and Okkodo High schools, GovGuam has been making annual payments on behalf of the Department of Education to a trustee. GovGuam paid \$7.1M in FY 2010 using Compact Impact grant revenues. Before the year end, GovGuam issued \$65.7M in COPs to finance the demolition, acquisition, construction, renovation and installation of facilities for the new John F. Kennedy High School. The annual lease payments for the new high school will commence in 2012 for \$2.9M and average \$5.1M per year thereafter. Altogether, GovGuam will be making annual lease payments of \$12.2M on the COPs for five schools.

### **Comprehensive Annual Financial Report (CAFR)**

The Organic Act requires GovGuam to submit to Congress and the Interior Secretary a CAFR conforming to the standards of the National Council on Governmental Accounting within 120 days after the close of each fiscal year. GovGuam has not complied with this requirement.

Please refer to OPA’s Compliance Highlights for a separate commentary on the Single Audit Reports and Management Letter. For a more detailed commentary of GovGuam’s operations, refer to the Management’s Discussion and Analysis in the report or visit [www.guamopa.org](http://www.guamopa.org).

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<sup>2</sup> A Certificate of Participation is a financial instrument used by government entities which allows an individual to buy a share of the lease revenues of an agreement made by these entities and is different from a bond since it is secured by those revenues.